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DIRECTORATE OF
INTELLIGENCE

Intelligence Memorandum

The Economic Situation In South Vietnam

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
April 1971

INTELLIGENCE MEMORANDUM

The Economic Situation in South Vietnam

Highlights

1. Even though measures enacted by the government on 5 March raised the prices of some goods, the general retail price level in Saigon declined slightly during the month, to a level only 1% above that of last July. In another encouraging development, the money supply declined slightly in February, the first decline since last October.
2. Shipments of rice out of the Delta during the first quarter of 1971 were well below the level required to eliminate dependence on imports, indicating producer resistance to reduced paddy prices. The government currently has ample stocks, however, and there are indications that Delta deliveries may increase during the next few months. Thus it is too early to predict whether additional imports of rice will be needed this year.
3. President Thieu has proposed giving all persons, not just government employees, a break on income taxes. In a related move to boost his chances for reelection, he also has ordered province chiefs to postpone collection of land taxes from farmers who have benefited from the land-to-the-tiller program.
4. Charts on foreign exchange reserves, money supply and prices, import licensing, and currency and gold prices follow the text.

Note: This memorandum was prepared by the Office of Economic Research.

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Prices and Reaction to March Reforms

5. Retail prices in Saigon have remained relatively stable for the past eight months. The monthly average USAID index declined slightly in March for the second consecutive month to within 1% of the July 1970 level. Although prices of some goods rose considerably as a result of the reform measures announced on 5 March,* the overall price level has remained remarkably stable. Public criticism of the government's action has not been severe, probably in large part because of the limited number of particular price increases. Some legislators have called for the ouster of Minister of Economy Ngoc, but observers believe the legislators were provoked more by resentment against Ngoc's personal treatment of them than by his policies.

6. A bumper vegetable harvest in the Da Lat area has kept vegetable prices down, and supplies of other food as well as non-food items apparently are ample. Depending on the variety, domestic rice prices either have declined slightly or have remained unchanged during recent weeks. The 31% increase in the official wholesale price of imported medium-grain rice had little effect on free market prices, which already were considerably above the new level, but it probably pushed up prices paid to farmers (see below). In Saigon the free market price of imported medium-grain rice rose only about 2%. In GVN Military Regions 1 and 2, imported rice prices increased 6%-10%, but by late March had returned to the level prevailing before 5 March. Speculators in Da Nang, who tried to take advantage of the situation by buying up a large quantity of US rice, were burned when the government immediately cashed their checks and their local creditors called for payment.

* The 5 March reforms consisted primarily of raising the official price of imported rice in order to stimulate the domestic rice market, increasing the perequation tax (a form of customs duty) on imports of sugar, shifting freight and insurance charges on many imports from the official exchange rate of 118 piasters per dollar to the parallel market rate of 275 piasters, and raising interest rates on treasury bills.

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7. While the general price level declined slightly during March, the monthly average USAID price index for imported commodities increased 3%. This increase stemmed mainly from the 5 March economic measures, which directly affected only the prices of imported goods. Despite these increases, import prices, which declined following the opening up of import licensing last October and the resultant squeeze on importers' profits, are only about 3% above the October level.

Money Supply

8. The money supply, which increased a total of 16% during December and January, declined 1% in February -- the first decline since last October. While savings and time deposits continued to increase rapidly, deficit financing by the government slowed considerably. Data are not yet available on sales of treasury bills following the setting of higher interest rates on 5 March.

Currency and Gold

9. Black market currency and gold prices in Saigon were relatively stable in March, as they have been ever since the partial devaluation of the piaster last October. On 6 April the price of dollars was 400 piasters per dollar and the rate for MPC (scrip) was 271 piasters per dollar, four piasters below the legal exchange rate. A dollar's worth of gold leaf sold for 502 piasters.

Rice Market

10. The outlook for adequately supplying the northern rice-deficit areas from the domestic rice market remains uncertain. The final official 1970/71 crop estimate, which should be out soon, probably will confirm previous predictions of a record crop, but deliveries of surplus rice from the Delta during the first quarter of this year were well below the average level that will be required to eliminate dependence on imported rice. In order for the domestic rice market to meet the needs of the entire country, Delta deliveries will have to average about 60,000 metric tons per month. Deliveries averaged only 33,000 tons during January

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and February, however, and fell slightly below that level during the first three weeks of March.

11. Traditionally, deliveries have been largest during the early months of the year when the main harvest is under way. In 1970, however, they reached a high point (about 44,000 per month) during the last quarter as farmers and merchants sold off their abnormally large stocks to make room for the new crop. As paddy prices (which had already declined about 15% during June-November 1970) dropped 9% between 1 December 1970 and 1 February 1971, farmers apparently decided a point had been reached where sales were no longer profitable. Most of the deliveries to Saigon this year have resulted from government purchases and reportedly have consisted largely of low-quality rice, including a considerable amount of IR-8. Farmers have been rebuilding their stocks and holding on to the higher quality rice. Prices of hogs continue to be high relative to paddy, and farmers probably also are continuing to divert rice to livestock feed.

12. There are indications, however, that deliveries may pick up in coming months. By 1 March, paddy prices had regained the 1 December level. Although no data are available, paddy prices probably have risen somewhat more since 5 March, when the government raised the official wholesale price of imported rice to equal that of domestic rice. Moreover, the Ministry of Economy reportedly has decided to buy 40,000 tons of rice each month for the next several months in order to insure that adequate supplies reach the northern provinces. Private merchants have begun some small-scale shipments of Delta rice to Military Regions 1 and 2, but the government will continue to be the major supplier for some time. Government stocks of rice in Military Regions 1 and 2 currently are ample and could be drawn down somewhat without serious consequences. With no additional imports scheduled to arrive this year, however, the rice situation in the northern provinces will deteriorate if Delta deliveries do not increase.

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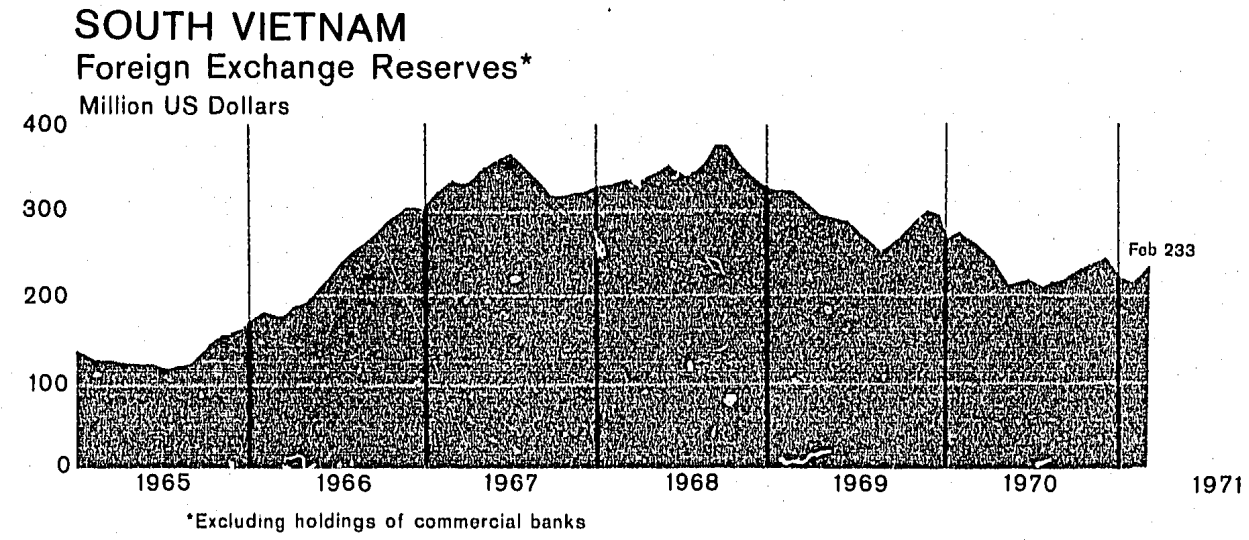
Politics and Taxes

13. Protests from labor unions and businessmen against President Thieu's recent proposal to exempt government employees from income taxes have led the cabinet to ask the National Assembly instead for a doubling of income tax exemptions for all persons. The effect on civil servants and the armed forces will be much the same as that of the earlier proposal because: (a) most government employees do not earn enough to pay income taxes, and (b) the increase in exemptions will eliminate most of those who do. The cabinet refused to back Finance Minister Hue's plan to submit a completely revised income tax code to the National Assembly prior to the elections. Legislative approval for a new code, however, reportedly will be sought this winter.

14. In a related move to boost his chances for reelection, Thieu recently instructed province chiefs to extend the tax holiday for recipients of land under the land-to-the-tiller program. The land reform law exempted new owners from property taxes for one year, but many of the early recipients would have become liable for land taxes prior to the presidential election.

15. Neither the increased income tax exemptions nor the continued suspension of land taxes will have much immediate effect on national and local government revenues. Income taxes provided less than 5% of national revenues in 1970, and land taxes, which for rice land range from only 13 to 350 piasters per hectare per year (\$0.05 to \$1.27 at the parallel market exchange rate of 275 piasters per dollar), have gone largely uncollected by local governments in recent years.

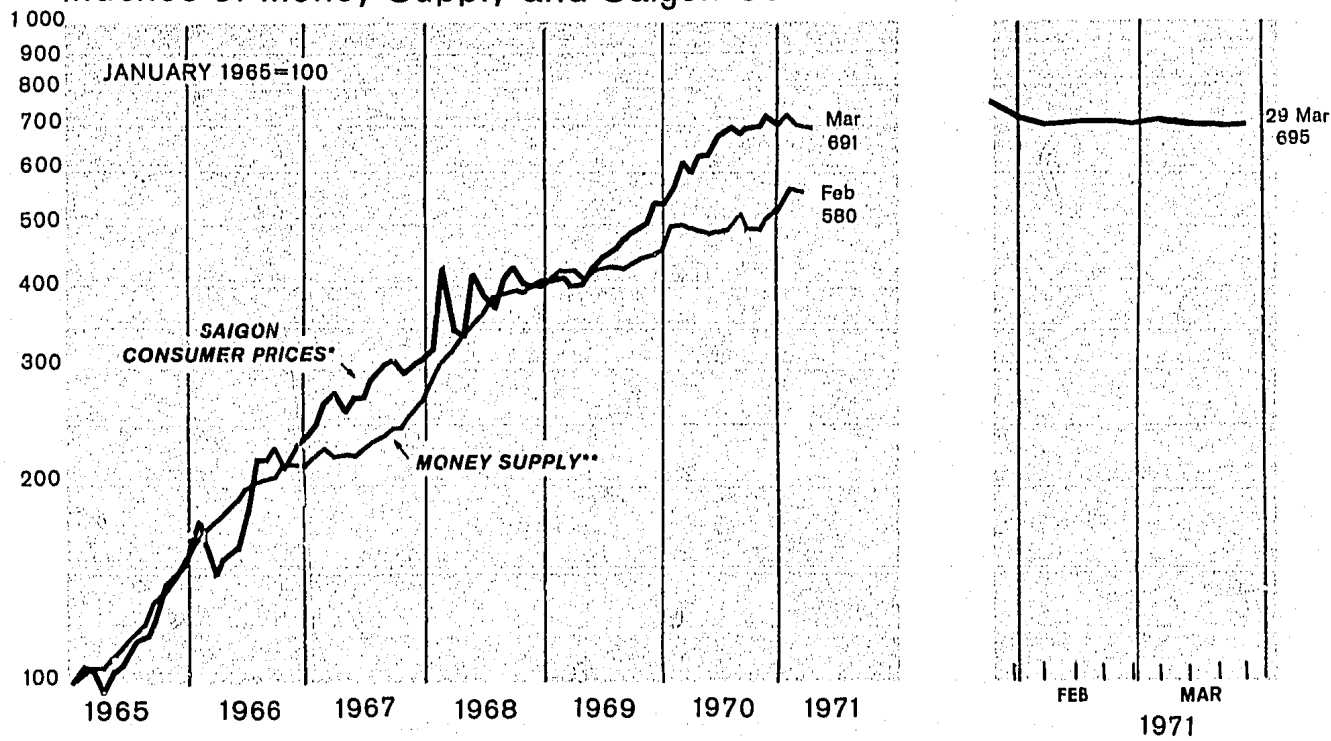
16. Nevertheless, the government's action postpones domestic tax reform, which is necessary to increase revenues and distribute the tax burden more evenly. Neither of the government's two recent economic reform packages included any domestic tax measures, and legislation to overhaul much of the domestic tax structure died in the National Assembly last year. While the real increase in revenues from import taxes has been substantial during the past two years, the real increase in revenues from domestic taxes has been slight -- less than 4% in 1970. US officials have urged the Vietnamese government to achieve at least a 10% annual increase in real domestic tax receipts.



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SOUTH VIETNAM

Indexes of Money Supply and Saigon Consumer Prices

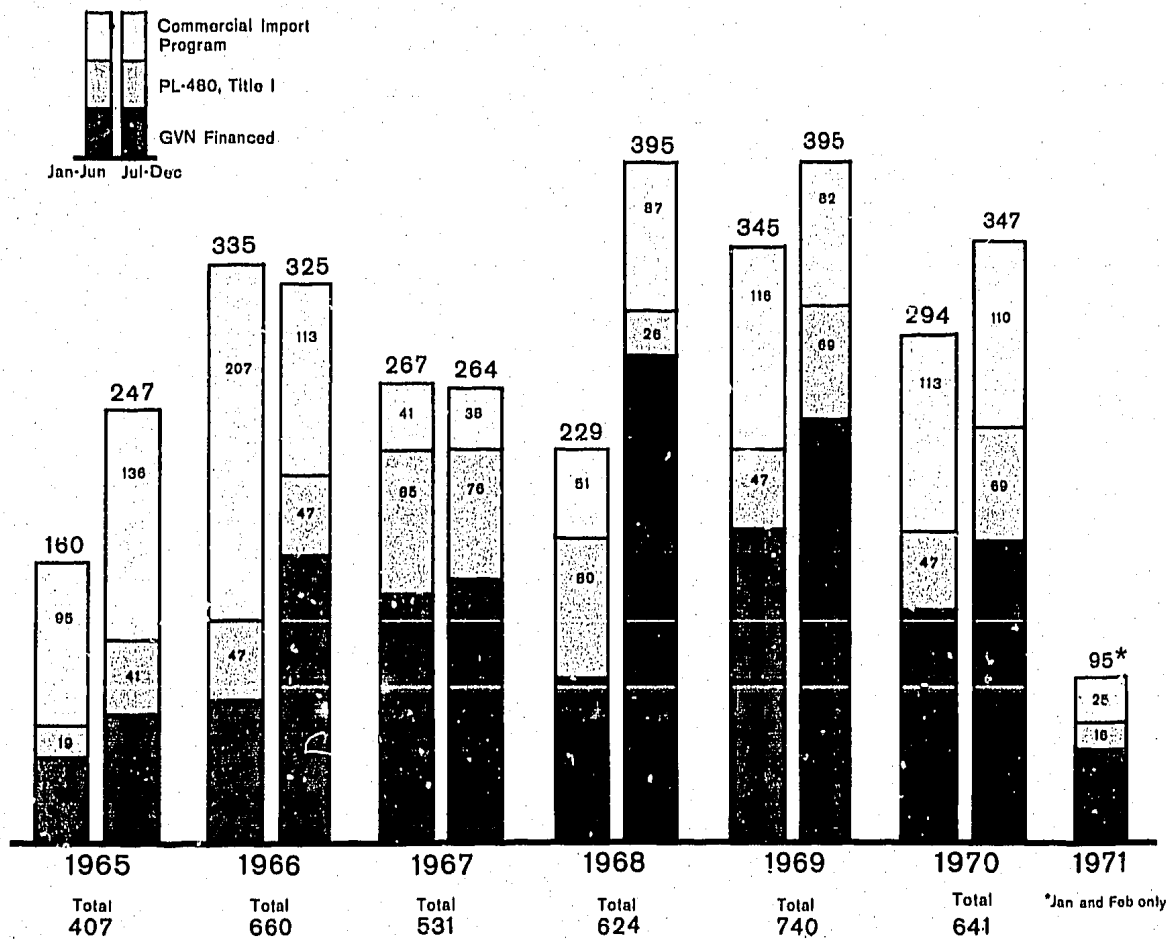


*USAID monthly average retail price index for Saigon

**Data are for end of month

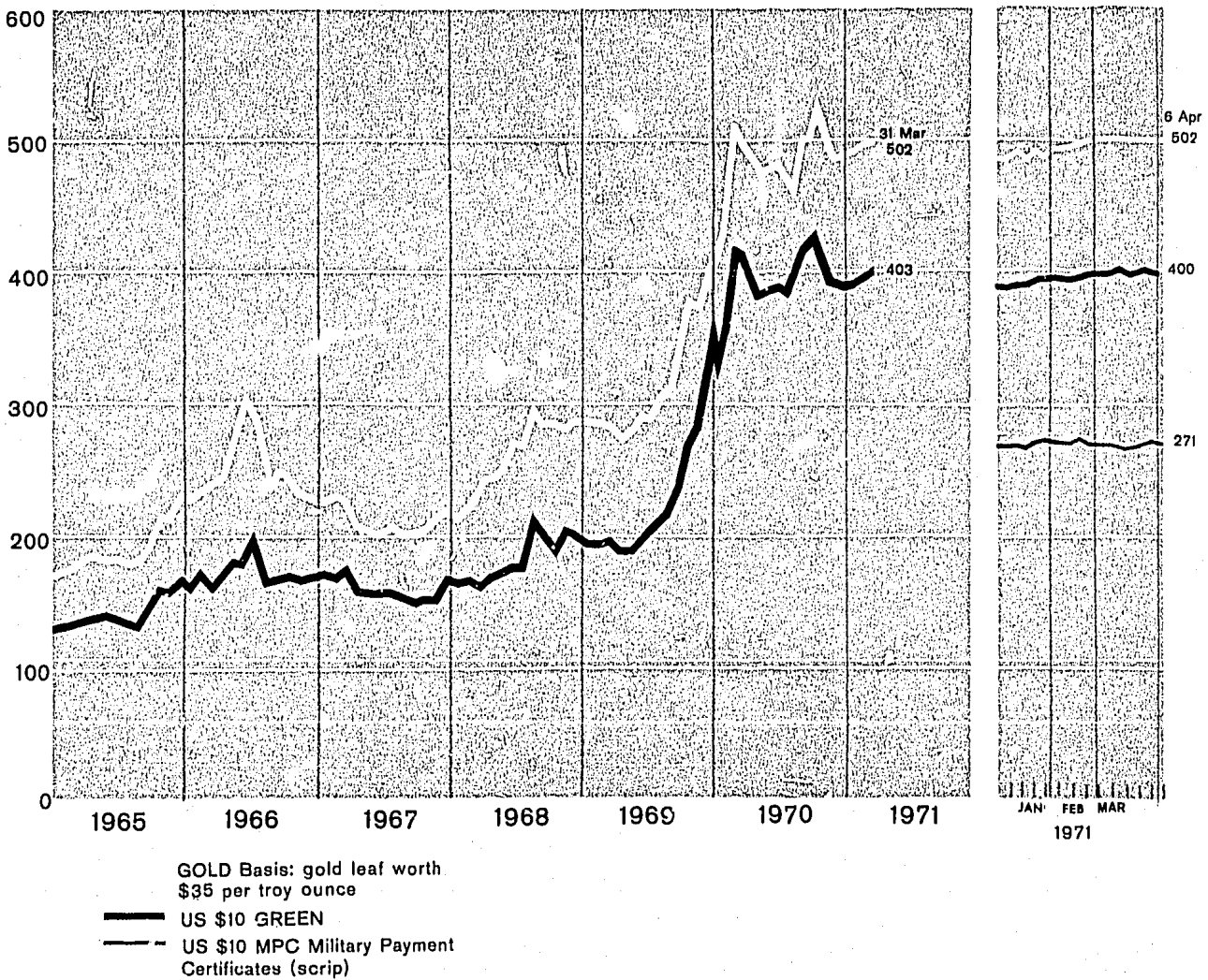
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IMPORT LICENSING
Million US Dollars



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SAIGON
Free Market Gold and Currency Prices
Piasters Per US Dollar



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